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D/Pers

83-3346

13 September 1983

MEMORANDUM FOR: Director of Personnel

VIA: Inspector General *ST*

FROM:   
Chief, Audit Staff

SUBJECT: Report of Audit, Government Employees Health  
Association, Inc., 1 January 1982 - 31 December 1982

1. Subject report is attached. Please advise me of the action taken on the recommendation contained in the report.

2. We appreciate the cooperation and assistance provided by your staff during the audit.



Attachment:  
As stated

Distribution:  
~~Orig.~~ - D/Pers  
1 - C/Board of Directors  
1 - D/OF  
1 - O/Compt/BMG

WARNING NOTICE  
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OR METHODS

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REPORT OF AUDIT  
Government Employees Health Association, Inc.

For the Period  
1 January 1982 - 31 December 1982

SUMMARY

1. Controls and procedures governing the custody and use of Government Employees Health Association, Inc. (GEHA) assets were generally effective and in accordance with applicable requirements. This report contains a recommendation concerning the reconciliation of certain general ledger accounts with their subsidiaries. Minor administrative matters were discussed with responsible officials and resolved during the audit.

SCOPE AND OPINION

2. The audit included an examination of the GEHA statement of financial position as of 31 December 1982 and 1981 and the related statement of changes in reserve fund balances for 1982. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and other auditing procedures, including a review of claim settlement procedures, as we considered necessary under the circumstances.

3. In our opinion, the accompanying financial statements, Exhibits A and B, present fairly the financial position of GEHA at 31 December 1982 and 1981 and the results of its operations for the year ended 31 December 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

BACKGROUND

4. GEHA is a tax-exempt organization incorporated in the District of Columbia to administer employee insurance programs in accordance with Agency operational and security requirements. An elected Board of Directors prescribes GEHA operating policies. The daily business is conducted by the Insurance Branch of the Benefits and Services Division in the Office of Personnel. GEHA reimburses the Agency for the services of [ ] employees in the Insurance Branch.

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5. GEHA maintains [ ] insurance accounts for active and retired employees. The following plans are in effect:

PLANSACCOUNTSLife Insurance:

United Benefit Life Insurance Company  
Active  
Retired

Worldwide Assurance for Employees  
of Public Agencies

Health Insurance:

Association Benefit Plan  
Active  
Retired

Contract Hospitalization

Specified Diseases

Disability Insurance:

Income Replacement

Accidental Death and Dismemberment  
Insurance:

Flight and Accident

Travel Insurance:

Air Flight

Military Air Flight

25X1

6. The Association Benefit Plan received premiums of \$20.8 million, paid out benefits of \$21.9 million, and incurred net operating expenses of \$1.7 million for a net underwriting loss of \$2.8 million. This loss was offset from reserves held by Mutual of Omaha and the Office of Personnel Management.

DETAILED COMMENTSReconciliation of General Ledger Accounts

7. The general ledger accounts recording advance premiums for certain employees have not been reconciled with supporting

records. As a result, the balance of Account 217 which records premiums from Foreign Broadcast Information Service foreign national employees is \$1,300 less than the total of supporting subsidiary records. And the balance of Account 218 which records premiums from contract employees is \$200 more than supporting subsidiary records. We were unable to resolve these differences. Periodic reconciliation of these accounts would help to identify such differences and aid in their timely resolution.

Recommendation:

- a. Adjust the general ledger account balances to agree with supporting subsidiary records.
- b. Reconcile the accounts with subsidiary records quarterly.

Exhibit A

Government Employees Health Association, Inc.  
Statement of Financial Position  
31 December 1982 and 1981

<u>ASSETS</u>		
	<u>1982</u>	<u>1981</u>
Cash	\$ 400,712	\$ 241,902
Investments (Note 1)	5,503,390	4,782,454
Claims Receivable	37,761	244,836
Contingent Assets:		
Funds Withheld by Underwriter for Specified Policyholders	139,666	139,666
Less: Reserves	(139,666)	(139,666)
Equipment (Net of Depreciation)	<u>1,156</u>	<u>1,734</u>
Total Assets	<u>\$5,943,019</u>	<u>\$5,270,926</u>
 <u>LIABILITIES AND RESERVES</u>		
Accounts Payable	\$ 32,128	\$ 27,389
Prepaid Premiums	137,009	181,205
Accrued Salaries	33,034	49,951
Accrued Dependent Premiums	<u>17,388</u>	<u>17,941</u>
Total Liabilities	219,559	276,486
Reserves (Exhibit B)	<u>5,723,460</u>	<u>4,994,440</u>
Total Liabilities and Reserves	<u>\$5,943,019</u>	<u>\$5,270,926</u>

Note 1: Investments are recorded at cost; market value at  
31 December 1982 was \$5,860,000 and at 31 December  
1981 was \$4,373,300.

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Exhibit B

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Government Employees Health Association, Inc.  
Statement of Changes in Reserve Fund Balances  
For the Year Ended 31 December 1982

	Total	UBLIC Investment in Common Stock	UBLIC General	Association Benefit Plan	Air Flight Plan	Contract Hospital- ization	General Fund
Balance, 1 January 1982	\$4,994,440	\$560,427	\$3,993,882	\$279,272	\$28,465	\$74,333	\$58,050
Increases:							
Premiums Withheld from or Returned by Underwriter	626,249		52,700	559,592		13,894	
Investment Income	623,803	122,639	481,739		3,458	8,971	7,016
Gain on Sale of Investments	153,394	41,940	106,877		767	1,990	1,856
Miscellaneous	810						810
Total Increases	<u>1,404,256</u>	<u>164,579</u>	<u>641,516</u>	<u>559,592</u>	<u>4,225</u>	<u>24,855</u>	<u>9,682</u>
Decreases:							
Salaries	565,806		19,600	528,674	3,498	13,990	
Premiums for UBLIC Dependent Coverage	42,218		42,218				
Investment Fees and Expenses	58,245	17,479	39,500		251	651	509
Miscellaneous	8,967			6,816			2,151
Total Decreases	<u>675,236</u>	<u>17,479</u>	<u>101,218</u>	<u>535,490</u>	<u>3,749</u>	<u>14,641</u>	<u>2,660</u>
Balance, 31 December 1982	<u>\$5,723,460</u>	<u>\$707,527</u>	<u>\$4,533,999</u>	<u>\$303,374</u>	<u>\$28,941</u>	<u>\$84,547</u>	<u>\$65,072</u>

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*File Audit File*

12 August 1983

## MEMORANDUM FOR THE RECORD

STAT [redacted] of the Audit Staff provided DC/IB and [redacted] verbal feedback on the 1982 audit, Prior to working on the written draft. Items discussed included:

1. Contract Health Advance Premium Accounts: [redacted] STAT  
recognized the complexity of the bookkeeping on CHI and spent significant personal time working in this area. The books and manually maintained cards have not balanced for several years despite the best efforts of both his and IB's staffs to do so. He verified the work done by IB in this regard for 1982 and he, himself continued that balance through the 20 March figures. Both agree exactly however the books and cards continue to diverge by \$1,274. [redacted] urges us to place the balance on cards in the bookkeepers account as of 20 March figures and to do a quarterly reconciliation from here on.

2. The entry of #108 Contingency Reserve withheld by UBLIC fro \$10,666 was set up in the seventies at the auditors request. This was money set aside by Mutual and held by Mutual during the active years of Contract Life for deficit coverage purposes. When Contract Life terminated and policyholders transferred to UBLIC Regular, sufficient funds were set aside to cover all individuals on waiver of premium. Mutual sent GEHA saying that the \$10,666 however, was never taken off GEHA's books and the auditors are now recommending it be done.

3. Due to a series of pending, and in-process personnel changes, the signatories on the accounts are not up-to-date. This is being remedied.

4. The auditors suggest that all blank checks be under the clerk typists control to separate access between individuals authorized to type checks and sign checks.

5. The auditors suggest that the blank CGI checks all be numbered rather than in lots of 100 or new numbered checks be acquired. In reviewing this recommendation we have determined that the current checks are nearly thirteen years old. We will attempt to get replacement checks.



6. In December 1982 OPM made a contingency reserve payment electronic transfer to the bank, we were not informed by OPM, it simply appeared on our bank statement. By the time we could confirm its validity it was January 1983 and so was entered on the books as such. The auditors pointed out that it should have been on the 1982 books but they did not suggest that we change it.

7. The auditors requested that we have Mutual review the adequacy of the free coverage reserve. We informed them that this study already was underway as part of a full scale UBLIC benefit study.



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CLASSIFY AS APPROPRIATE

## INSURANCE VOUCHER

VOUCHER NO. 83 - 371		DATE August 19, 1983	
DEBIT		CREDIT	
ACCOUNT	AMOUNT	ACCOUNT	AMOUNT
Trust Liability for Return of Premiums Withheld (Contract Life) # 256	10,666 00	Contingency Reserve Withheld by Topic # 123	10,666 00

## EXPLANATION

This voucher removes, from the Ledger of Government Employees Health Association, the balance in Contingency Reserve (Contract Life) fund held by underwriter.

Transaction made at the request of auditors, 1983.

PREPARED BY

E.P.

AUDITED BY



POSTED BY

APPROVED AS AUDITED



STATEMENT OF EXPERIENCE

GOVERNMENT EMPLOYEES HEALTH ASSOCIATION, INC.  
Washington, D.C.

GLG 3262  
5-1-78 to 1-1-79

A. TOTAL PREMIUM	\$11,032
LESS POOLED PREMIUM	0
NET PREMIUM	11,032 #2
B. INCURRED CLAIMS	
PAID CLAIMS	0
LESS POOLED CLAIMS	0
NET PAID CLAIMS	0
BEGINNING RESERVE	12,639
ENDING RESERVE	25,000
INCURRED CLAIMS CHARGED	12,361 #1
C. POLICY CHARGES	
RETENTION	1,800 #3
CONVERSION CHARGE	0
TOTAL CHARGES	1,800
D. BALANCE (A-B-C)	-3,137*
E. REFUND	0
CONTINGENCY FUND BALANCE	10,666

\*Transferred from Contingency Fund

WASHINGTON, D.C. REGIONAL GROUP OFFICE

non refundal  
per N. Conway 5-3-  
1970 letter of agreement

October 30, 1970

STAT

**Government Employees Health Assn.**  
**P. O. Box 463**  
**Washington, D.C. 20044**

STAT

Dear [redacted]

When Policy GLG-3262 was originally written, our retention formula called for a special contingency fund set up on smaller group programs. These contingency funds were set up against adverse experience and, in effect, were a pooling fund.

Under Policy GLU-414, the \$60,000 of refund is a special deposit agreed to between your organization and United Benefit and it was agreed to be held at interest and is a refundable reserve.

Under Policy GLG-3262, our contingency fund formula was applied to use it against adverse experience as indicated. This fund was accumulated in the early 1960's and eventually reached a maximum of \$21,882 on May 1, 1966. This balance, as you know, was reduced to \$13,803 last year when we used \$8,079 to offset poor experience. This fund does not earn interest and is a nonrefundable reserve. Since that time, we have changed our retention formula and you will note that since it is outdated, no contributions of any sort will be made toward the contingency fund arrangement.

We are pleased to hear that the Civil Service Commission has notified you that our request for benefit and rate changes for 1971 has been approved.

→ 13,803.

- 3,137. deducted 5/1/78-1/1/79

10,666. bal. on books as of 12/31/79

Yours sincerely,

A. W. Randall  
Executive Vice President

AWR:MR

cc: Norman C. Conway

cc: Joseph E. Jones